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Treasury trading on electronic portals: How they can help and how to make sure they do

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— Treasury
Management
Operations

What do you need from a portal?

- **State of the art technology**
- **Transparency**
- **Risk management and control**
- **Automation STP and STR**
- **Scalability**
- **Product continuous development**
- **User friendliness**
- **Comprehensive customer support**
- **Effective governance**
- **Independence**

State of the Art Technology

- **Issues**
 - Is the technology best in class and continuously improved?
 - Is it integrated – fund/bank automation and investor STP?
- **Why does it matter to Honeywell?**
 - Our requirements are continuously developing and portals need to invest to keep up
 - So do our own treasury systems and integration requirements will continue to evolve
 - Manual processing means delays, trade errors and failures and increased risk and cost so complete automation and integration to deliver full STP is critical
- **Questions to ask**
 - How has the portal been improved in the last 2 years and what is the annual budget for change requests and new developments?
 - Does anything get faxed or phoned through at any stage in the trading process or is the whole process fully automated
 - Which treasury systems has the portal already integrated with and what data has been exchanged?
 - Does the portal make use of SWIFT messaging to ensure effective real time trading?

Transparency

- **Issues**

- Is there transparency of pricing and does no cost really mean no cost?
- Is there transparency of trading permissions and counterparty exposures?

- **Why does it matter to Honeywell?**

- We want to ensure that there is no limitation of our negotiating power with the funds in terms of management fees and rebates
- In our relatively complex treasury operations structure we need to ensure complete transparency of trader and counterparty limits and exposures at all times

- **Questions we asked**

- Would I get a better deal trading directly with any funds or through another portal?
- Are trader and counterparty limits explicitly identified on the portal and alerts provided in the event of any breaches?
- Are there effective breach escalation procedures built into the portal?

Risk Management and Control

- **Issues**

- Real time monitoring and policing of treasury policies including trader and counterparty eligibility and exposure limits both pre and post trade
- Importance of access to up to date credit ratings
- Need for comprehensive audit trails

- **Why does it matter to Honeywell?**

- Economic conditions have required an increasing focus on compliance with all treasury policies at all stages in the investment process
- Volatility of credit ratings means continuous monitoring of credit ratings in real time to ensure only eligible counterparties are used
- Requirement for a comprehensive audit trail of all actions and warnings issued to all parties to trades for internal audit and control purposes

- **Questions we asked**

- How are treasury policies captured and enforced on the portal?
- Where is credit rating information sourced and how is it kept current
- What events and related information are captured on the audit trail?

Automation STP and STR

- **Issues**
 - Operational efficiencies and secure trading can only be delivered with automation on both fund and investor sides providing straight through processing and reconciliation
 - SWIFT integration for trade execution and settlement
 - Accurate and up to date balance and accurate interest reporting
- **Why does it matter to Honeywell?**
 - Need to minimise the risk of trade delays, errors and failures
 - Need to improve efficiency through integration with SunGard Quantum TMS
 - SWIFT messaging delivers simple, secure and automated settlement of all trades
 - Up to date and accurate account balance and accrued interest saves time and resources by avoiding the need for extensive reconciliation
- **Questions we asked**
 - Which treasury systems has the portal integrated with and what data has been exported?
 - What SWIFT messages can the portal send and receive and does this include MT101s for auto-settlement?
 - How is balance and interest information provided to the portal and with what frequency?

Scalability

- **Issues**

- What is the coverage of the portal in terms of counterparties, products, currencies and countries of operation
- Different treasury organisational structures need to be supported from centralised to distributed treasury operations

- **Why does it matter to Honeywell?**

- Have 64 fund accounts in 42 funds across 14 fund managers in 5 currencies traded by 8 Honeywell entities
- Need complete coverage of all funds – and other instruments such as term deposits
- Need to set up teams with customised permissions and access to the portal

- **Questions to ask**

- What is the current coverage of the portal in terms of counterparties, products, currencies and countries of operation?
- When and how will this be extended?
- How can different treasury organisational structures be supported?

User Friendliness

- **Issues**

- To improve operational efficiency a portal must be intuitive and hence quick and easy to use
- Different users have different preferences so the portal must be configurable by each user to suit their own individual needs

- **Why does it matter to Honeywell?**

- We didn't want a portal that would require extensive staff training
- We have many different users in 8 different teams with different market, view, trading and reporting requirements and needed to meet all their needs quickly and easily

- **Questions to ask**

- Does the portal require users to participate in a training course before they can place a trade?
- Do they need a user manual to access the portal functionality?
- Is the trade flow process simple and does it reflect normal ways of working within a corporate treasury?

Comprehensive Customer Service

- **Issues**

- Need for effective client services support to ensure the effective operation of the platform – that means 24/7 global market support
- Ability to offer auto-settlement without the need for 3rd party clearing agents
- Need to offer consolidated reporting across all aspects of market discovery and trading
- Portal services, including investor back office integration, should be provided at zero cost

- **Why does it matter to Honeywell?**

- As a global organisation we need support to be available 24/7 in Europe, Asia/Pacific and the US
- We didn't want to lose the ability for our bank funds to be settled directly by the bank but did want to be able to do the same for non-bank funds
- Our relatively complex organisational structure gives rise to a real need for consolidated reporting from many previously disparate sources
- Integration with our SunGard Quantum TMS was essential but we did not have a budget for significant development work

- **Questions we asked**

- What market control and market support arrangements do you have in place and does this provide 24/7 global coverage?
- Are you able to offer direct auto-settlement via MT101 SWIFT messages or any other means?
- What standard and customised reporting capabilities are provided, including portfolio analytics using high quality data
- Are TMS integration and other services provided at no cost and are any service charges levied?

Effective Governance

- **Issues**

- Omnibus and nominee account trading require delegation of trading authority
- So does absence of automation even for direct trading

- **Why does it matter to Honeywell?**

- We only want Honeywell employees to be authorised signatories on our accounts and only our own signatories as authorised traders
- We wanted full legal as well as beneficial ownership of shares, which is only possible with direct trading
- We didn't want any Honeywell monies to pass through a 3rd party clearer as this raise issues in terms of counterparty risk

- **Questions we asked**

- Does the portal mandate letter include delegated trading authority for portal employees or any other 3rd party?
- Is anyone within your organisation an authorised signatory?
- Does settlement require funds to be passed through a 3rd party?

Independence

- **Issues**

- As technology providers should portals also be offering investment advice
- Do portal staff have the expertise and necessary approvals to do this anyway?
- Portals may receive different fees from funds and banks

- **Why does it matter to Honeywell?**

- We believe that portals should be providing secure and efficient market discovery, trading and reporting and not selecting investments, which is our responsibility
- We are concerned that differential fees may lead to potential conflicts of interest for portal providers

- **Questions we asked**

- Do you offer investment advice and are you authorised to do so?
- Do you publish your fee structure for all participating funds and banks?
- How do you ensure no conflicts of interest?